

STATE OF WASHINGTON



OFFICE OF
INSURANCE COMMISSIONER

**CHUBB GROUP OF INSURANCE
COMPANIES**

15 MOUNTAIN VIEW ROAD

WARREN, NEW JERSEY 07059

MARKET CONDUCT EXAMINATION

JANUARY 1, 1998

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SEPTEMBER 30, 1998

Deborah Senn
Insurance Commissioner
Olympia, Washington 98504

Pursuant to your instructions and in compliance with the laws of the State of Washington,
a market conduct examination has been made of the

Chubb Group of Insurance Companies

15 Mountain View Road

Warren, New Jersey 07059

and this report of examination is respectfully submitted.

This was the second exam of the companies. This examination was a target exam reviewing the commercial lines underwriting activities between January 1, 1998 and September 30, 1998. The examination included a review of the underwriting activities in the following areas:

New and renewal policies

Non-renewal, cancellation and declined to write.

Forms and rates

Five instructions were issued to the company in July, 1992, as a result of the first market conduct examination . Four of these instructions addressed company violations in their commercial underwriting practices. The other instruction was to amend the advertising to comply with RCW 48.30.050 by including the full name of the insurer and the location of the home office.

The examination was performed in the regional office in Seattle, Washington.

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EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by Sally Anne Carpenter and Shirley M. Merrill, who also participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

HISTORY AND OPERATIONS

The Chubb Group of Insurance Companies trace their origins to the partnership of Chubb & Son, an underwriting organization which was organized in New York in 1882. The successor, Chubb & Son, Inc., was incorporated under New York law in 1959. As of 1967 Chubb & Son, Inc. was a wholly owned subsidiary of Chubb Corporation. Effective January 1, 1998, Chubb & Son, Inc. was restructured as Chubb & Son, a division of Federal Insurance Company.

The Chubb Group is engaged in full multiple line operations including property, liability, marine, fidelity, and surety. In 1997 The Group sold off the remaining life insurance companies. The property and casualty companies, through independent agents and brokers, sell their products in the United States, Canada, Europe, parts of Australia, and the Far East. The Chubb Group targets select commercial customer groups by offering specialized insurance coverages such as customized packages for financial institutions, attorneys, business executives, electronic firms and museums. They also offer a unique line of products and services for the high end personal lines market.

The principle property/casualty company in The Chubb Group is the Federal Insurance Company founded in 1901. The Chubb Group has seven companies writing property, casualty and surety insurance in Washington State.

They are:

- Chubb Indemnity Insurance Company
- Chubb National Insurance Company
- Federal Insurance Company
- Great Northern Insurance Company
- Northwestern Pacific Indemnity Company
- Pacific Indemnity Company
- Vigilant Insurance Company

The Chubb Group is led by Dean R. O'Hare, Chairman.

UNDERWRITING AND RATING

The examiners selected 205 new and renewed policies from a population of 7385 new and renewed commercial policies. 19 files from the initial sample could not be located for the examination. The examiners expanded the sample during the exam to include 10 additional umbrella policies. Files were reviewed to determine if :

- the companies follow their filed rating plans
- the companies follow their underwriting rules consistently
- the companies were in compliance with Washington state laws

The examiners also manually rated policies to determine if there were any program errors in the companies' computer system and if the companies were using their filed and approved rates.

Our findings are as follows:

RCW 48.05.190 (1) "Every insurer shall conduct its business in its own legal name."

Forty violations were identified. Some policies contained multiple violations. See Appendix 1 for detail.

- 2 policies contained an application or binder which did not show the correct or complete name of the insurer.
- 1 policy identified the insurer incorrectly.
- 1 policy contained billing notices which showed an incorrect insuring company.
- 1 policy contained a declarations page which showed an incorrect insuring company.
- 2 policies contained correspondence which did not identify the actual insuring company.
- 1 policy contained a Cancellation/Policy Release request which showed an incorrect insuring company.
- 1 policy contained an Evidence of Property Insurance form which showed an incorrect insuring company.
- 31 certificates of insurance issued on 5 policies did not show the actual insuring company.

WAC 284-30-560(2)(a) "Such binder must be dated, identify the insurer in which the coverage is bound, briefly describe the coverage bound, specify the date and time coverage is effective, and acknowledge receipt of the amount of premium money received." Three violations were identified. See Appendix 1 for detail.

- 2 policies contained binders that identified the insuring company as the Chubb Group.
- 1 policy contained a binder that identified the insuring company as The Chubb.

RCW 48.18.2901(1)(b) "Each insurer shall be required to renew any contract subject to RCW 48.18.290 unless one of the following situations exists:" "(b)At least twenty days prior to its expiration date, the insurer has communicated, either directly or through its agent, its willingness

to renew in writing to the named insured, and has included a statement of the amount of premium or portion thereof required to be paid by the insured to renew the policy,..." Eighty-one violations were identified. See Appendix 2 for detail.

- 17 policies had no documentation that a renewal notice was sent.
- 38 policies contained a renewal notice that was sent late, and sent only to the agent
- 26 policies contained a renewal notice that was sent timely. However, the notice was sent only to the agent.

WAC 284-24-100 states in part:

"(2) A plan shall provide no more than 25% credit (reduction) or debit (charge), excluding any expense adjustment permitted by a filed and approved plan."

"(3) A plan must provide for an objective analysis by the insurer and be based on specific factual information supporting the rating. . ."

"(5) A plan shall be administered equitably and applied fairly to every eligible risk which an insurer elects to insure. Records supporting the development of individual risk modifications shall be retained by the insurer for a minimum of three years or until the conclusion of the next regular examination by the insurance department of its domicile, whichever is later and made available at all reasonable times for the commissioner's examination. Such records must include copies of all documentation used in making each particular determination, even though a credit or debit may not result." Thirty-seven violations were identified. See Appendix 3 for detail. \$1,715 on three policies was returned to policyholders.

- 33 policies did not contain sufficient documentation to satisfy the requirements of

WAC 284-24-100.

- 4 policies applied credits/debits incorrectly by exceeding the 25% cap or utilized credits to maintain premium level.

WAC 284-24-070(1) "Pursuant to RCW 48.19.080, the commissioner rules and hereby orders that the casualty insurance rate filing requirements set forth in chapter 48.19 RCW are suspended as to classes of policies: . . . (3) The insurer's rating of such a risk shall be based on a documented underwriting analysis of: (a) Specific definable loss potential characteristics, (b) Analogy to similar exposures, and (c) Available loss frequency and severity data." Ten violations were identified. The examiners identified an overcharge of \$1,000 on one policy which was returned to the policyholder. See Appendix 4 for detail.

- 10 Umbrella policies did not contain an underwriting analysis which met the requirements for Aa@ rating.

RCW 48.19.040(6) AWhen a filing is required no insurer shall make or issue an insurance contract or policy except in accordance with its filing then in effect, except as provided by RCW 49.19.090.@ Six violations were identified. See Appendix 5 for detail. \$1287 on one policy was returned to the insured.

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- 6 policies did not follow their rate filings.

RCW 48.03.030(1) "Every person being examined, its officers, employees and representatives shall produce and make freely accessible to the commissioner the accounts, records, documents, and files in his possession or control relating to the subject

of the examination, and shall otherwise facilitate the examination." In the course of the examination it was discovered that the original cancellation list provided by the company contained a programming error. Files appeared on the list that had been renewed. The examiners requested that all canceled policies requested from the original cancellation list be provided. The company was asked to provide a corrected cancellation list from which additional samples were requested. Nineteen violations were identified. See Appendix 6 for detail.

- 19 files from the sample requests could not be located for the examination.

2 from the new and renewal sample

8 from the original cancellation sample

5 from the additional cancellation sample

4 from the non renewal sample

RCW 48.18.230(1) "...No binder shall be valid beyond the issuance of the policy as to which it was given, or beyond ninety days from the effective date, whichever period is the shorter." Two violations were identified. See Appendix 7 for detail.

- 1 binder was issued for a one year period.
- 1 binder was issued for a nine month period.

RCW 48.18.140(2)(f) A policy shall specify: "(f) The conditions pertaining to the insurance." Two violations were identified. See Appendix 7 for detail.

- 1 policy with autos garaged in Washington was issued an Oregon auto endorsement. This file was returned by the examiners for correction.
- 1 multi-state policy with underinsured motorist coverage was issued without the mandatory Washington forms. This file was returned by the examiners for correction.

NON-RENEWAL AND CANCELLATIONS

During the time frame of this examination, the companies processed 519 policy cancellations and non-renewed 387 policies. The examiners selected 71 cancellations and 42 non-renewals to determine if the company was issuing notices in compliance with Washington law. Thirty declined commercial risks were also reviewed. All had been submitted for a quote, none were bound. No errors or violations were found in the declined risks that were reviewed.

Our findings are as follows:

RCW 48.17.591(1) "No insurer authorized to do business in this state may cancel or refuse to renew any policy because the insurer's contract with the independent agent through whom the policy is written has been terminated by the insurer, the agent, or by mutual agreement." One violation was identified. See Appendix 7 for detail.

- Agent's commercial appointment terminated 11/1/97. The company canceled one policy effective 6/19/98 because of the agent's termination.

RCW 48.18.300(1) "Cancellation by the insured of any policy by which its terms is cancelable at the insured's option or of any binder based on such policy may be effected by written notice thereof to the insurer or surrender of the policy or binder for cancellation prior to or on the effective date of cancellation." Two violations were identified. See Appendix 7 for detail.

- Two policies were identified as canceled at the request of the insured. The written notice of cancellation was not located in the policy file and could not be provided by the company.

RATE AND FORM FILING

A sample of rate and form filings was taken from the 205 new and renewed policies used in the underwriting sample. The purpose of this sample was to determine if the companies were complying with the laws regarding the filing of rates and forms.

The companies utilized Insurance Services Office, (ISO), as their rating organization for commercial lines rates and rules, as well as those from Washington Surveying & Rating Bureau, (WS&RB) for their commercial fire policies. The companies also developed and filed company deviations to the ISO and WS & RB rules and rates for some of their commercial products.

Commercial product forms are either ISO forms or are developed by the companies utilizing information from various rating and advisory organizations, as well as their own experience and perceptions of the needs of the market place.

Our findings were as follows.

RCW 48.18.100(1) "No insurance policy form other than surety bond forms, forms exempt under RCW 48.18.103, or application form where written application is required to be attached to the policy, or printed life or disability rider or endorsement form shall be issued, delivered, or used unless it has been filed and approved by the commissioner. This Section shall not apply to policies, rider or endorsement of unique character designed for or used with relation to insurance upon a particular subject." Two violations were identified. See Appendix 7 for detail.

- 2 files contained a form "Amendment - Policy Conditions" This form is not unique in character, therefore it must be filed for approval.

Subsequent event: The companies advised they will withdraw the "Amendment - Policy Conditions" endorsement from use until a filing has been made and approved.

INSTRUCTIONS AND RECOMMENDATIONS

1. The companies are instructed to comply with RCW 48.05.190(1) and establish procedures that ensure policy documents and correspondence correctly identify the legal name of the insuring company. (Page 5)
2. The companies are instructed to comply with WAC 284-30-560 to ensure that all binders correctly identify the legal name of the insuring company. (Page 5)
3. The companies are instructed to comply with RCW 48.17.591(1) and offer renewals pursuant to the requirements of this law when the agent/insurer relationship has been terminated. (Page 8)
4. The companies are instructed to comply with RCW 48.18.2901(1)(b) to ensure all offers of renewal are made in writing to the named insured at least 20 days in advance. (Page 5)
5. The companies are instructed to comply with all filing and rating requirements in WAC 284-24-100(2)(3)and (5), WAC 284-24-070(3)(a-c) and RCW 48.19.040(6). (Page 6)
6. The companies are instructed to comply with RCW 48.03.030(1) to ensure that all policy records are available for examination when requested during the course of an examination. (Page 6)
7. The companies are instructed to comply with RCW 48.18.230(1) and issue binders with effective dates no longer than 90 days. (Page 7)
8. The companies are instructed to comply with RCW 48.18.140(2)(f) to ensure that all policies are issued with the correct endorsements. (Page 7)
9. The companies are instructed to comply with RCW 48.18.300(1) to ensure written documentation of the insured's request to cancel a policy is retained in the policy file. (Page 8)
10. The companies are instructed to comply with RCW 48.18.100(5) and file all forms that do not qualify as manuscript forms. (Page 9)

APPENDIX 1

Violations of RCW 48.05.190 (1) and WAC 284-30-560(2)(a)

Policy Number Comment

	Violations of WAC 284-30-560(2)a)
35348540	Binder issued identified the insurer as the Chubb Group
78279608	Binder issued identified the insurer as the Chubb Group
35368776	Binder issued identified the insurer as The Chubb.
	Violations of RCW 48.05.190 (1)
81479627	Application shows policy to be bound in an incorrect company name
78273688	Policy shows incorrect insuring company
78273688	Billing notices show incorrect insuring company
73261462	Declarations page shows incorrect company name
35317623	Correspondence did not show actual insuring company
79440977	Correspondence did not show actual insuring company
35324535	Cancellation/Policy Release request showed incorrect insuring company
35324535	Evidence of Property Insurance showed incorrect insuring company
35324535	2 Certificates of Insurance showed incorrect insuring company
78323549	1 Certificate of Insurance did not show actual insuring company

35382695	6 Certificates of Insurance did not show actual insuring company
35365480	1 Certificates of Insurance did not show actual insuring company
35312657	21 Certificates of Insurance show incorrect company name

APPENDIX 2

Violation of RCW 48.18.2901(1)(b)

Policy Number Comment

35290222	No Notice
35353782	No Notice
783223575	No Notice
78323115	No Notice
35317604	No Notice
78323873	No Notice
78323466	No Notice
73197268	No Notice
35244758	No Notice
78323521	No Notice
79408763	No Notice
35368728	No Notice
35324587	No Notice

78279610	No Notice
73137139	No Notice
78323568	No Notice
78352740	No Notice
35350963	Late notice- Sent only to agent
79720165	Late notice- Sent only to agent
78323578	Late notice- Sent only to agent
78323574	Late notice- Sent only to agent
78323587	Late notice- Sent only to agent
78323452	Late notice- Sent only to agent
81256244	Late notice- Sent only to agent
78323585	Late notice- Sent only to agent
78278963	Late notice- Sent only to agent
78323559	Late notice- Sent only to agent
78323483	Late notice- Sent only to agent
78323821	Late notice- Sent only to agent
78352751	Late notice- Sent only to agent
73213998	Late notice- Sent only to agent
79440977	Late notice- Sent only to agent

78323572	Late notice- Sent only to agent
78352743	Late notice- Sent only to agent
35338947	Late notice- Sent only to agent
78323540	Late notice- Sent only to agent
35317630	Late notice- Sent only to agent
35338866	Late notice- Sent only to agent
35358937	Late notice- Sent only to agent
73244345	Late notice- Sent only to agent
35368802	Late notice- Sent only to agent
79664394	Late notice- Sent only to agent
73244338	Late notice- Sent only to agent
79135949	Late notice- Sent only to agent
73213971	Late notice- Sent only to agent
79734088	Late notice- Sent only to agent
35337264	Late notice- Sent only to agent
79720223	Late notice- Sent only to agent
35613132	Late notice- Sent only to agent
35317640	Late notice- Sent only to agent
78323566	Late notice- Sent only to agent
35309606	Late notice- Sent only to agent

35324576	Late notice- Sent only to agent
78291328	Late notice- Sent only to agent
35273179	Late notice- Sent only to agent
78325390	Notice timely - Sent only to agent
79737275	Notice timely - Sent only to agent
73213921	Notice timely - Sent only to agent
35338871	Notice timely - Sent only to agent
78323547	Notice timely - Sent only to agent
73203558	Notice timely - Sent only to agent
35323018	Notice timely - Sent only to agent
35334501	Notice timely - Sent only to agent
78323546	Notice timely - Sent only to agent
81201604	Notice timely - Sent only to agent
78323567	Notice timely - Sent only to agent
78323576	Notice timely - Sent only to agent
35296336	Notice timely - Sent only to agent
78323588	Notice timely - Sent only to agent
78268325	Notice timely - Sent only to agent
78323529	Notice timely - Sent only to agent

78360244	Notice timely - Sent only to agent
78323403	Notice timely - Sent only to agent
78323435	Notice timely - Sent only to agent
78352770	Notice timely - Sent only to agent
78278850	Notice timely - Sent only to agent
75317605	Notice timely - Sent only to agent
78278993	Notice timely - Sent only to agent
78360195	Notice timely - Sent only to agent
35299984	Notice timely -Sent only to agent
35226286	Notice timely -Sent only to agent

APPENDIX 3

Violations of WAC 284-24-100 (1) through (5).

Policy Number Comment

78323154	Lack of sufficient documentation to support debits or credits.
78325390	Lack of sufficient documentation to support debits or credits.
81578818	Lack of sufficient documentation to support debits or credits.
35317604	Lack of sufficient documentation to support debits or credits.
78323873	Lack of sufficient documentation to support debits or credits.
78323484	Lack of sufficient documentation to support debits or credits.

78323466	Lack of sufficient documentation to support debits or credits.
35338871	Lack of sufficient documentation to support debits or credits.
81388101	Lack of sufficient documentation to support debits or credits.
35338942	Lack of sufficient documentation to support debits or credits.
35337279	Lack of sufficient documentation to support debits or credits.
35326834	Lack of sufficient documentation to support debits or credits.
35244758	Lack of sufficient documentation to support debits or credits.
35312657	Lack of sufficient documentation to support debits or credits.
81211217	Lack of sufficient documentation to support debits or credits.
73244338	Lack of sufficient documentation to support debits or credits.
78352769	Lack of sufficient documentation to support debits or credits.
35299984	Lack of sufficient documentation to support debits or credits.
35338945	Lack of sufficient documentation to support debits or credits.
35350963	Lack of sufficient documentation to support debits or credits.
35296336	Lack of sufficient documentation to support debits or credits.
35317604	Lack of sufficient documentation to support debits or credits.
35050501	Lack of sufficient documentation to support debits or credits.
35226286	Lack of sufficient documentation to support debits or credits.
78319761	Lack of sufficient documentation to support debits or credits.
73254377	Lack of sufficient documentation to support debits or credits.

35226286	Lack of sufficient documentation to support debits or credits.
81524334	Lack of sufficient documentation to support debits or credits.
35368776	Lack of sufficient documentation to support debits or credits.
78279610	Lack of sufficient documentation to support the debits applied. \$44 returned to the insured.
35324587	Lack of sufficient documentation to support the debits applied. \$440. returned to the insured.
78323568	Lack of sufficient documentation to explain why no credits\debits were applied to an eligible risk.
78278850	Lack of sufficient documentation to explain why no credits\debits were applied to an eligible risk.
78323572	Utilizing credits to maintain premium level of prior year.
78323407	Company applied more than the 25% debits allowable. \$1,231 returned to insured.
35324541	Applied 25% schedule credits & 15% expense modification. Total of both allowed is 25%.
73197268	Combining schedule credits & expense modification, exceeded 25% allowed. Also the companies' filed plan put a cap of 25%.

APPENDIX 4

Violation of WAC 284-24-070 & WAC 284-24-100 (A) rated umbrellas

79322814	Insufficient documentation for (a) rating
79073466	Insufficient documentation for (a) rating & schedule rating

79664445	Insufficient documentation for (a) rating & no schedule rating applied
79642619	Insufficient documentation for (a) rating & schedule rating
79663930	Insufficient documentation for (a) rating & schedule rating
79663859	Insufficient documentation for (a) rating & no schedule rating applied. \$1,000 over charge returned to insured.
79663901	Insufficient documentation for (a) rating & schedule rating
79768773	Insufficient documentation for (a) rating
79079566	Insufficient documentation for (a) rating & no schedule rating applied
79646066	Insufficient documentation for (a) rating & no schedule rating applied

APPENDIX 5

Violations of RCW 48.19.040 (6)

Policy Number Comment

35338874	Inappropriate rates were used, policy terms corrected. Return Premium of \$1,287 for 97-98 term
78352759	Additional premium was waived in prior policy period, then not charged to insured at renewal.
78323566	California rates were used, policy corrected and \$196 was returned to insured.
78323578	Inappropriate minimum premium was used, insured was charged less than they should have been, company has been instructed to correct on next renewal.

78352743	Company waived additional premium when adding newly acquired property.
73254377	Company used experience rating plan without having information on losses.

APPENDIX 6

Violation of RCW 48.03.030(1)

The following policies from the exam sample were not located.

New and Renewal List

policy number

35383077	35351396		
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Cancellation list (original request)

policy number

35350974	78323878	78325439	35309631
35368752	78323878	35368757	35324547

Cancellation list (additional request)

policy number

78349958	78323579	73238780	35350970
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79553910			
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Non-Renewal list

policy number

80818948	81031249	35264264	81031268
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APPENDIX 7

Violation of RCW 48.18.230(1)

Policy Number Comment

81517283	Binder issued for a one year period, 9/18/98-9/18/99
7978348609	Binder issued with effective dates May 1, 1998-March 1, 1999

Violation of RCW 48.18.140(f)

Policy Number Comment

73235619	Mandatory Washington auto form was not on the policy
73144971	Mandatory Washington auto form was not on the policy

Violation of RCW 48.17.591(1)

Policy Number Comment

35338906	Company canceled the policy because agent appointment was canceled.
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Violation of RCW 48.18.300

Policy Number Comment

81318665	No cancellation request on file.
35148413	No cancellation request on file.

Violation of RCW 48.18.100(5)

Policy Number Comment

73197268	Form # 16-02-33 "Manuscript Form"
73137139	Form # 16-02-33 "Manuscript Form"